BOSTON AND MAINE RAILROAD

130th ANNUAL REPORT 1962

PRESIDENT AND CHIEF EXECUTIVE OFFICER

DANIEL A. BENSON

BOARD OF DIRECTORS

OLIVER D. APPLETON, Mount Kisco, N. Y., Vice-Chairman
ANDREW J. BECK, Presque Isle, Me.
*DANIEL A. BENSON, Marblehead, Mass.
ROBERT G. BLEAKNEY, JR., South Sudbury, Mass.
MAYNARD W. BULLIS, Boston, Mass.
ANTHONY R. CATALDO, Lexington, Mass.
BURTON M. CROSS, Augusta, Me.
GEORGE F. GLACY, Brookline, Mass.
W. EARLE GOSS, Franklin, N. H.
NATHAN GREVIOR, Franklin, N. H.
RODNEY A. GRIFFIN II, Franklin, N. H.
NEAL J. HOLLAND, Boston, Mass.
EDWARD KROCK, Brookfield, Mass.
PATRICK B. MCGINNIS, New York, N. Y. Chairman
PATRICK J. MULLANEY, Winchester, Mass.
FRANCIS J. REARDON, Belmont, Mass.
LEE P. STACK, Hingham, Mass., Chairman Finance Committee
HERBERT W. VAUGHN, Framingham Center, Mass., Finance Committee
LEWIS H. WEINSTEIN, Newton, Mass., Finance Committee
JAMES C. WEMYSS, JR., Groveton, N. H.

*Member, ex-officio, of the Finance Committee

OFFICERS

DANIEL A. BENSON, President and Chief Executive Officer
MAYNARD W. BULLIS, Clerk of the Corporation
GEORGE F. GLACY, Vice President-Accounting and Finance
PATRICK J. MULLANEY, Vice President-Traffic
RALPH W. PICKARD, Vice President-Personnel
E. FRANKLIN REED, Vice President-Industrial Development
NEAL J. HOLLAND, General Counsel
HERBERT F. FLOYD, Comptroller
THOROLD S. CURTIS, Treasurer
PAUL C. DUNN, Chief Mechanical Officer
THOMAS K. DYER, Chief Engineer
CHARLES F. YARDLEY, General Manager-Piggyback
ALBURN J. CONNELL, Director-Systems and Research

TRANSFER AGENTS

Old Colony Trust Company, 45 Milk Street, Boston
The Hanover Bank, 70 Broadway, New York

TO OUR STOCKHOLDERS

President Benson

Despite declines in freight and passenger revenues during the year, the Boston and Maine reduced its net loss to $2,890,153 from $3,279,716 in 1961.

Operating expenses were $49,540,758 or 2.2% below the $50,621,112 for the like period of 1961. The operating ratio, i.e., the percentage of operating expenses to operating revenues, was 77.36, the fifteenth best performance among the major Class I railroads in the country and the best among the five New England lines.

An encouraging factor was a substantial decrease in per diem costs, long a severe problem for terminal railroads such as ours. The Railroad reduced its net rents payable for equipment and joint facilities in 1962 to $6,605,534, or 15% less than the $7,774,111 reported for 1961. Hire of freight equipment amounted to $5,897,825, or 18% less than the $7,192,332 reported for 1961. Included in this reduction was a saving of nearly $400,000 for hire of trailers.

The passenger deficit was reduced from $3,974,818 in 1961 to $3,788,987 in 1962. Nevertheless, as can be seen from the year's results, this remains a major problem for the Railroad, with the passenger deficit absorbing 57% of the 1962 freight service net operating income.

At the close of 1962, the Railroad entered into an agreement with the Mass Transportation Commission for a one-year mass transit demonstration program. The Railroad began its participation in the program on January 6, 1963, and is to receive $2,200,000 to compensate it for an overall average decrease in fares of about 30% and an increase of more than 85% in train service.

In entering into the contract with the Mass Transportation Commission, the Railroad called public attention to the dimensions of the Boston and Maine's passenger losses in the last several years and warned that "no privately operated enterprise can continue to incur losses of this magnitude and expect to stay in business."

In a public statement given wide coverage by all news media, your Management declared:

"If rail passenger service is a public necessity that cannot be supported by private enterprise then public means for its support will have to be found. We believe it to be in the public interest to make it plain that if passenger deficits continue, the basic needs of financial survival will leave the B&M no choice but to consider such measures as are open to it to divest itself of the passenger deficit."

The past year saw an acceleration of moves toward major Eastern railroad mergers. Because of the implications for the Boston and Maine as a terminal carrier, the Railroad deemed it essential to take a position that would safeguard it against isolation from the mainstream of Eastern railroad merger developments. Accordingly, the Railroad urged that studies be initiated to determine the feasibility of a unified New England railroad system. The New York Central agreed to join in a study of the feasibility of transferring its Boston and Albany Division to the Boston and Maine as a nucleus for a New England system. The first phase of this study was completed during the year.

In testifying before the Interstate Commerce Commission on the Pennsylvania-New York Central merger proceedings, both James M. Symes, Chair-

man of the Board of Directors of the Pennsylvania, and Alfred E. Perlman, President of the New York Central, took the position that the problems of the New England railroads could best be solved by the establishment of a New England railroad system.

The Boston and Maine continues to adhere to its advocacy of a New England railroad system and has also made it plain that it would consider per diem relief by the trunk lines that would be served by such a system to be an essential part of the plan we are espousing. At the same time, the Boston and Maine has made it clear that if its primary objective of a financially workable New England railroad system cannot be achieved, it will seek inclusion in one or another of the major trunkline mergers whose formation is under consideration. This would be essential to protect the Railroad's interests, as well as the interests of New England.

During 1962, President Kennedy's message on transportation created the possibility that Washington would give closer attention than at any time in recent years to regulatory inequities that have steadily sapped the ability of railroads to meet the competition of regulation-exempt truck and water carriers. A considerable improvement was noted in both Congressional and public attitudes towards the economic problems faced by the railroads.

Legislation to free railroads of rate-making shackles that have exercised steady drains on their revenues and consistently undermined their competitive posture would be of particular significance to the Boston and Maine. The Railroad's stockholders, no less than its Management, have a vital stake in Congressional action to remedy these inequities.

Whether as a businessman or a taxpayer—and certainly as an investor—your support of our efforts to achieve much needed reforms in our national transportation policy is earnestly solicited.

Daniel A Benson

President

REVIEW OF 1962

FREIGHT BUSINESS

Freight revenue in 1962 was $54,928,337 or 2.1% lower than in 1961. Average revenue per ton declined from $3.41 in 1961 to $3.33 in 1962 and average revenue per ton mile declined from 2.011¢ in 1961 to 1.964¢ in 1962. Volume, as expressed in number of tons carried, showed an increase of 0.2% and revenue ton miles increased 0.2%.

Total carloads handled decreased 3.1% compared to 1961. The installation in the Fall of 1961 of a petroleum pipeline from New Haven, Connecticut, to Chicopee, Massachusetts, caused a serious decline in the petroleum traffic being handled by the Railroad to Westover Air Base. Construction of storage and distribution facilities on the Boston waterfront for the handling of cement resulted in some erosion of our cement traffic. This cement moves from origin producing mills by barge to Boston and thence by truck from the storage facility to consumers.

During 1962, movement of earth fill in trainload lots for use in the construction of Interstate Route 93 continued. The Railroad handled 20,740 carloads.

Because of competition from the oil industry, there has been some changeover from the use of coal to oil. This has adversely affected our traffic.

The Railroad has acted to meet these various problems through the medium of multiple car rates on petroleum products, unloading allowances to receivers of bulk cement, and the publishing of volume rates on coal. A study is now under way as to the feasibility of establishing trainload rates on coal.

Paper and paper products continued strong and showed an increase over 1961. No substantial change in the movement of this traffic is anticipated in the immediate future.

There has been some discussion within the railroad industry calling for increases in freight rates. The only action taken, however, was in connection with accessorial charges for services, such as stopping off in transit, loading and unloading, transit charges, etc.

The petition for abandonment by the Rutland Railroad, approved by Division 2 of the Interstate Commerce Commission, has been appealed by railroad labor and is now before the Courts. We have studied the possibility, in the event of abandonment, of acquiring certain portions of this line.

PORT PARITY CASE

Last year, your Management reported that the United States District Court for Massachusetts had reversed the order of the Interstate Commerce Commission in the so-called Port Parity case, which had directed cancellation of our proposed equal rates on import-export freight via Boston. This decision has been appealed by the U. S. Department of Justice on behalf of the Interstate Commerce Commission and by the railroads and port interests serving Baltimore and Philadelphia. Argument will be heard before the Supreme Court of the United States during the spring of 1963.

PER DIEM CASE

Last year, your Management reported to you that the so-called per diem case had been remanded by the Supreme Court of the United States to the

Interstate Commerce Commission for further study. In connection with that further study, the railroads have submitted information concerning freight car ownership costs to the Commission. Hearings have been resumed by the Commission and the matter remains in litigation.

PIGGYBACK

Piggyback volume continued to show an encouraging rate of growth throughout the year. Trailerloads handled, 24,580 in 1962, represented a 38.5% increase over the 17,753 loads of the preceding year.

Establishment by Kenosha Auto Transport, Inc., of an East Cambridge terminal at our Yard 14 site enabled the Railroad to participate in the piggybacking of 2,870 auto-carriers loaded with 16,680 American Motors' automobiles originating at Kenosha, Wisconsin. This volume of automobile movement is increasing and it is expected that 3,500 such carriers or 21,000 automoblies will be handled in 1963.

Steady gains prevailed in all three forms of piggybacking conventional highway trailers. Motor Common Carrier traffic other than automobiles handled by the B&M in PLAN I increased from 2,516 to 3,400 trailerloads. PLAN II business, door-to-door service provided in railroad-owned or leased trailers, rose from 5,263 trailerloads in 1961 to 6,048 last year, an increase of 14.9%. Freight Forwarder, Shipper Association and other freight consolidator traffic, the largest segment of B&M piggyback, increased to 12,262 loads handled or 22.3% over 1961.

This trend is continuing. To attract and accommodate further increases, a fourth piggyback loading and unloading track was placed in service at our East Cambridge facility. New terminals have been opened at White River Junction, Vermont, and Mechanicville, New York, to improve system piggyback coverage. The facility at Worcester, Massachusetts, displaced by highway construction, has been replaced by a new and improved facility at South Worcester, providing for improved service to shippers.

Through new low-level car design, we are looking forward to the inauguration in 1963 of piggyback services between the New Haven Railroad at Harlem River, New York, and northern New England via the Worcester gateway. Continued expansion of rates, routes, and services will provide for the development of new business and a continued increase in the volume of B&M piggyback traffic.

INDUSTRIAL DEVELOPMENT

New plant construction on the Railroad in 1962 involved 861,500 square feet of space. Expansion of existing facilities accounted for an additional 346,000 square feet. Other building projects begun in 1962, and now under construction, involve about 250,000 square feet of floor space.

New and expanded manufacturing, warehousing and storage facilities located on the Railroad during the year are expected to produce rail traffic amounting to about 10,000 cars annually. Other major developments in 1962 worth noting for future plant construction include:

Colonial Press, the largest book printers in the east, purchased 70 acres for new plant facilities in Clinton, Mass. A substantial part of the acreage was acquired from the Railroad. Plans contemplate construction of 100,000-150,000 square feet in 1963, with ultimate construction of 1,000,000 square feet of new plant space.

Tampax Co. purchased 120 acres at Claremont, N. H., and will proceed with new plant construction in 1963. An initial unit will involve 100,000 square feet and ultimate construction of 300,000 square feet.

Additional sidetrack facilities amounting to 8,513 feet were installed for industrial purposes. The sale of surplus real estate was continued at an intensified rate during the year. Close to $1,750,000 was realized from this source. The sales program was vigorously pursued to effect further industrial development, secure much needed cash and accomplish tax savings.

"The New Boston" is rapidly becoming a reality and its favorable influences are being felt throughout the North Station area.

New major highways now under construction are opening up sizable areas of new industrial properties with rail facilities.

In the Andover-Tewksbury area, 1,600 acres are being developed on Interstate Highway 93, and about 300 acres in Tewksbury near the new interchange of Interstate Highway 495 and Route 38. Other sizable parcels are in development at Littleton, Mass., and Springfield. Discussions with the owners have indicated they are keenly interested in rail locations at these sites. Four industries in the new Lechmere Development Project in East Cambridge are now in active operation, one of which will substantially expand its facilities in 1963. Further development of this area is in active progress.

PASSENGER BUSINESS

Total passenger revenue in 1962 amounted to $4,617,061 compared with $5,138,071 in 1961, a decrease of 10.1%. Total passengers carried declined 7.8% from 5,938,306 in 1961 to 5,472,620 in 1962. The decrease in riding, accelerated in 1961 by major improvements in Interstate Highways 3 and 93, continued in 1962. It was further affected by the opening of the second vehicular tunnel connecting Boston with the North Shore and Northeast Expressway. The Interstate Commerce Commission allowed discontinuance of four trains on the Connecticut River Line between Springfield, Mass., and White River Junction, Vt. The application for these discontinuances, filed in October, 1961, became effective with the change of time in April, 1962, after extensive public hearings. The 10% Federal tax on passenger transportation was repealed, effective November 16, 1962. At the same time, all passenger rail fares previously subject to the tax were increased by this Company in unison with other Eastern railroads. The increase was not applied to New Hampshire intrastate fares by order of the Public Utilities Commission of that State.

REDUCTION OF PASSENGER DEFICIT

The following table shows the reductions made in the passenger deficit and in passenger train miles operated since 1954:

Year	*Passenger Train Miles*	*Percent Decline vs. 1954*	*Net Rwy. Oper. Deficit (I.C.C. Formula)*	*Percent Decline vs. 1954*
1954	6,055,976	-	$15,159,263	-
1955	5,892,511	2.7	12,250,363	19.2
1956	5,880,948	2.9	13,678,564	9.8
1957	5,530,409	8.7	12,590,280	16.9
1958	4,391,400	27.5	9,635,997	36.4
1959	3,478,332	42.6	7,387,693	51.3
1960	3,236,534	46.6	4,971,202	67.2
1961	2,777,658	54.1	3,974,818	73.8
1962	**2,486,678**	**58.9**	**3,788,987**	**75.0**

OPERATING RESULTS

Operating revenues amounted to $64,040,384 or 3.0 per cent less than the $66,031,162 realized in 1961. Operating expenses were $49,540,758 or 2.1 per cent less than the 1961 expenses of $50,621,112.

Net railway operating income increased to $2,853,407 from $2,688,705 reported a year earlier. After other non-operating income and expense, $2,835,374 remained available for fixed charges, compared with $2,679,933 in 1961. After fixed and contingent charges, the net loss was $2,890,153, compared with a net loss of $3,279,716 in 1961.

Gross ton miles in the year 1962 decreased 0.7% under 1961, while net ton miles increased 0.1%. The slight improvement in net ton miles resulted from record high average in carload tons, which at 32.3 tons is 0.3 more than the previous record established in 1961.

Freight train operating efficiency, as measured by gross ton miles per train hour, for the year 1962 was the best performance by the Railroad in its history. This resulted primarily from a record high in average train load tons, coupled with a high train speed.

The Company's 1962 operating ratio of 77.36% was the lowest among the five New England railroads.

With the exception of the Norfolk and Western, Nickel Plate and Wabash, three highly prosperous railroads, the B&M operating ratio was the lowest of the major eastern railroads.

1962 Operating Ratios

36 Railroad Companies Other Than New England, but Including Boston and Maine

	Per Cent	Rank
Atch., Top. & Santa Fe	79.17	23
Atlantic Coast Line	76.94	13
Baltimore & Ohio	77.66	16
BOSTON AND MAINE	77.36	15
Cent. RR of N.J.	86.28	33
Chesapeake & Ohio	80.37	25
Chic., Burlington & Quincy	78.92	21
Chic. & Eastern Illinois	80.76	26
Chic., Milw., St. P. & Pac.	79.50	24
Chic. & North Western	85.72	30
Chic., R. I. & Pacific	81.48	28
Delaware & Hudson	78.97	22
Denver & R.G. Western	67.89	3
Erie-Lackawanna	88.12	35
Great Northern	78.60	19
Gulf, Mobile & Ohio	76.46	11
Illinois Central	78.33	17
Kansas City Southern	58.38	2
Lehigh Valley	90.73	36
Louisville & Nashville	78.82	20
Mo.-Kans.-Texas	75.36	8
Missouri Pacific	75.10	7
New York Central	83.92	29
Nickel Plate	76.57	12
Norfolk & Western	56.60	1
Northern Pacific	86.02	32
Pennsylvania	81.41	27
Reading	87.14	34
St. Louis-San Francisco	78.45	18
Seaboard Air Line	77.07	14
Southern Pacific	76.17	10
Southern Railway	69.14	4
Union Pacific	72.28	5
Wabash	75.98	9
Western Maryland	85.81	31
Western Pacific	74.96	6

Five New England Railroads

Bangor & Aroostook	90.06	4
BOSTON AND MAINE	77.36	1
Central Vermont	86.53	3
Maine Central	79.80	2
N. Y., N. H. & Hartf.	91.80	5

PLANT AND EQUIPMENT IMPROVEMENTS

Improvement of the Railroad's plant during the year continued to stress economy and productivity.

Stone ballast was applied to 10 miles of main line track in 1962, compared with 11.8 miles in the previous year. In addition, 76 single track miles of stone ballasted main track were resurfaced. New and relay rail laid during the year totaled 2,100 tons, while 26,500 cross ties (new and relay) were installed.

Fourteen single track miles of track were physically retired from service and, under the Railroad's program of single tracking, one track of former double track line was removed to improve clearances at two locations.

Fourteen public highway crossings were eliminated and automatic highway crossing protection devices were installed at 6 public crossings.

Elimination of manual protection at public crossings in 1962 accounted for an annual saving of $89,988 to the Company. Similar projects approved in 1962 and now under way will yield further annual savings of $196,629. Additional annual savings of $40,113 can be achieved if favorable decisions are obtained on petitions filed in 1962 and now pending with public authorities.

During the year, 7 private grade crossings were closed, making a total of 898 such crossings eliminated since inception of the vitally important program, begun five years ago, to eliminate private grade crossings.

Signal and communications improvements in 1962 included a new CTC* system between Soapstone, Mass., and Johnsonville, N.Y., centralizing controls in Greenfield Dispatcher's office previously handled from towers at North Adams, Mass., and Johnsonville, N.Y. Signal changes at two interlockings at Worcester permitted a substantial reduction in hours of manual operation at Exchange St. tower. Signal and track changes at Bellows Falls, Vt., permitted elimination of 21 man days of labor per week. Substantial signal and track changes were made at Tower C to permit elimination of three spans of Cambridge St. Bridge #1.51. Replacement cost of this facility, if borne entirely by the Railroad, would have cost some $450,000. Ultimately, the major share of construction costs for a new bridge was assumed by the City of Boston. The Railroad contributed $150,000 toward these costs.

One hot box detector was located from double track at So. Ashburnham to single track west of Gardner, permitting full utilization for trains in either direction.

Base radio stations were installed at Boston, Lowell, Worcester, North Beverly, Concord, N.H., and on top of Florida Mountain, just east of North Adams. Mobile radios were installed in 130 M.W. vehicles and machines. This entire system is controlled from a new radio room in the North Station Industrial Building. Another base station, controlled by the Greenfield Dispatcher, was installed on Florida Mountain to increase coverage of train to wayside radio system.

General facility improvements during the year included: Expansion of piggyback facilities at East Cambridge, Mass; installation of piggyback facilities at Westboro, N.H., Fitchburg and Worcester; construction of Freight House No. 1 at East Cambridge, and improvement of clearances at some 15 locations.

*Centralized Traffic Control

A total of 15 new units of major work equipment and roadway machines was purchased during the year, in addition to miscellaneous small machines and tools, all designed to provide increased productivity.

Ten reconditioned cabooses were purchased for yard and transfer service to replace cabooses built in the 1890s.

Fifteen reconditioned 70-ton capacity hopper cars were purchased for gravel service.

Thirty-one second-hand 70-ton capacity hopper cars were purchased and reconditioned at Billerica Shop for gravel service.

In line with our continuing policy to provide specialized equipment where traffic warrants, the following cars were modified for special loading:

Wood Chip

Twelve second-hand 70-ton hopper cars were purchased, reconditioned and modified at Billerica Shop to 4700 cu. ft. capacity by increasing height of sides and ends, making the car 15 ft. 10 in. high.

Cement

Two cars equipped with modified "DF" equipment for palletized loading.

Nitre Cake

Eight 40-ft. cars and three 50-ft. cars were relined and interior treated with Polyurethane for Nitre Cake service.

Grain

Three covered hopper cars were conditioned for bulk grain loading.

Sugar

Two covered hopper cars had special lining applied for use in bulk sugar service.

BRANCH LINES

Review of the economics of our branch lines has been continued on a regular basis.

In 1962 abandonments were authorized by the Interstate Commerce Commission as follows:

Feb. 1, 1962—5.3 miles—Portion of Bedford and Billerica Branch.

Feb. 5, 1962—1.4 miles—Portion of Marblehead Branch from Forest River to Marblehead.

Mar. 9, 1962—2.25 miles—Portion of Salem Branch in Peabody, Mass.

May 8, 1962—3.8 miles—Reformatory Branch from Bedford to end of line in Concord.

For many years the operation and ownership of the Troy Union Railroad in the City of Troy, New York, by the Boston & Maine, New York Central, and Delaware & Hudson has been a major problem to all three railroads. After protracted negotiations with the City of Troy, the shippers, and between the three railroads, agreement was reached in 1962. Petitions to abandon the line were filed in October, 1962, and are now pending before the Interstate Commerce Commission.

Abandonment petitions involving 104 miles of various branch lines were filed early in 1963 with the Interstate Commerce Commission.

MYSTIC TERMINAL COMPANY

A subsidiary of the Railroad, the Mystic Terminal Company leases piers and a grain elevator from the Massachusetts Port Authority. When the management of this operation was changed in 1957, it was running a deficit of $406,304. The latest reported figure represents the lowest loss incurred in the last twelve years.

In 1962, the Company handled 282 ships in foreign service, as compared with 276 in 1961. Tonnage loaded to and unloaded from ships at Hoosac and Mystic Piers in 1962 amounted to 264,748 net tons of general cargo, compared with 272,648 net tons of general cargo in 1961.

Grain movement was again disappointing. All movement was for the U. S. Department of Agriculture. The Company handled 250,000 bushels of export grain in 1962 against 2,443,300 bushels in 1961. This decline was relatively the same at all North Atlantic ports in the year 1962. It resulted from increased grain movement by barge at Gulf ports and uncertainties about agricultural tariff policies now under discussion in the European Common Market countries. Adverse effects were felt by the Company because private exporters are moving grain through their own or leased port elevators. In addition, inland freight rates to Boston are higher than the inland rates to Baltimore, Philadelphia and Norfolk.

But an even more serious factor has been the emergence of the St. Lawrence Seaway as a large and destructive competitor of all Atlantic ports on the Northeastern coast of the United States. Midwest grain is now moving via the Seaway—built partly with U. S. government funds—directly to foreign ports. And much of this American grain is moving abroad in foreign vessels.

EQUIPMENT RENTALS

More efficient car handling resulted in a significant decrease in net per diem costs. Net rents for equipment and joint facilities in 1962 totalled $6,605,534, or 15% less than the $7,774,111 reported for 1961. Hire of freight equipment amounted to $5,897,825, or 18% less than the $7,192,332 reported for 1961. The Interstate Commerce Commission is still hearing testimony regarding freight car per diem rates, an issue the B&M has pressed vigorously through the courts. Meanwhile, a proposal to put into effect multi-level rates based on values of individual freight cars is in committee in the Association of American Railroads.

LONG-TERM DEBT CHANGES

Balance at beginning of year	$99,828,130
Increases:	
Collateral Trust Indenture dated October 17, 1962 due Serially to October 15, 1977	1,000,000
Equipment and Road-Property obligations account of new acquisitions	729,646
Total increases	1,729,646
Decreases:	
Equipment and Road-Property obligations paid	4,838,878
Principal payments made on Collateral Trust Indentures	300,000
Series SS, 6% Bonds paid off and retired (Annual Serial Maturity)	959,484
Total decreases	6,098,362
Net change during the year (decrease)	4,368,716
Balance at end of year	$95,459,414

GUARANTEED NOTE

Application was filed with the Interstate Commerce Commission for guaranty of a loan from The First Pennsylvania Banking and Trust Company of Philadelphia of $1,000,000 with interest at 5% per annum, under the provisions of Part V of the Interstate Commerce Act, as amended. Order approving the loan and guaranty was issued by the Commission on October 3, 1962. Closing of the loan and issuance of the note was on October 17, 1962. The note is due October 15, 1977, and requires prepayment of $16,667 quarterly on the fifteenth day of January, April, July and October in each year, commencing January 15, 1963.

CONDITIONAL SALE AGREEMENT EXTENSION

The General Motors Acceptance Corporation, assignee of Conditional Sales Agreement dated October 16, 1956, covering fifty 1750 H.P. GP-9 Diesel Locomotives, agreed last May to extend that agreement by reducing the monthly principal payments 50% from June 1962 through April 1965, a reduction during that period of $449,532 annually. Resumption of full monthly principal payments of $74,922 on May 1, 1965 will extend the agreement to mature on April 1, 1969.

CENTRALIZED TRAFFIC CONTROL

Installation of C.T.C. system between Greenfield, Massachusetts, and Johnsonville, New York, has been completed. Conditional Sale Agreement dated August 1, 1960, covers the final cost of $455,932. Down payments reduced the financed portion to $364,746 payable in 60 equal monthly installments through the Genesee Valley Union Trust Company of Rochester, New York, with interest on unpaid balance at 5¼%.

TAXES

Railway taxes aggregated $5,040,685 in 1962, as compared with $4,967,234 in 1961.

Federal income taxes in 1962 amounted to $123,953 and consisted of taxes on leased lines rentals in the amount of $170,562 and a joint facility tax refund of $46,609.

Payroll taxes for employee retirement, unemployment and sickness benefits amounted to $2,491,598 in 1962, compared with $2,495,440 in 1961, a net decrease of $3,842, although Railroad Retirement and Unemployment tax rates increased on January 1, 1962 from 6¾% to 7¼% and from 3¾% to 4%, respectively.

The provision made for taxes is shown in the following table:

	1962	*1961*
State and Municipal	$2,407,070	$2,254,589
Federal Payroll	2,491,598	2,495,440
Federal Income	123,953	193,759
Other	18,064	23,446
Total	$5,040,685	$4,967,234

SYSTEMS AND RESEARCH

The Systems and Research Department continued its program of cost reduction, increased productivity and improvements in furnishing management information through progression of mechanized procedures and systems application.

Systems activities were expanded to include three major departments during 1962. Through application of a unique computer program, specific employee recordkeeping has been established on a continuing basis for our Personnel Department.

In harmony with the Engineering Department's up-to-the minute radio reporting of work project activity, wage cost detail for each project is now being reported daily by the Central Data Processing Division, thus providing Engineering management with current media for improved project control.

Two major traffic studies detailing every carload handled were data-processed for our Traffic Department, producing a realistic appraisal of our traffic pattern.

The former Car Reporting Bureau was physically merged with the Central Data Processing Division, resulting in significant savings. Functions of the former Bureau were computerized for increased efficiency.

The General Communications Center, formerly the General Telegraph office, was relocated and up-graded with modern communication equipment. Outdated Morse code transmission has been eliminated.

By-product data from our extensive payroll procedures has been further exploited to electronically produce labor and fuel costs for each freight train operated, to further the effectiveness of the Accounting Department's Responsibility program.

Car detention reporting furnished the Operating Department has been improved and extended to provide even tighter control of freight car handling for reducing per diem expense.

EMPLOYEE RELATIONS

The Presidential Railroad Commission filed its report on February 26, 1962, recommending (a) elimination of firemen in freight and yard service; (b) arbitration of other crew consist issues; (c) freedom to establish inter-seniority district runs; (d) removal of many restrictive rules dividing road and yard work, and (e) modernization of the pay structure.

Protective conditions without precedent in American industry were provided for employees adversely affected. Nevertheless, the operating unions have steadfastly refused to negotiate on the basis of these recommendations and are now litigating the right to progress the case under the Railway Labor Act. The timing of eventual settlement cannot be predicted at this time.

In accord with the recommendations of Emergency Board, the compensation of non-operating employees was increased 4 cents an hour February 1, 1962, and 6.28 cents an hour May 1, 1962. The advance notice of force reduction was increased to five work days. No corresponding changes for operating employees were made, the subject being related to the pending Presidential Commission case.

The unions representing shop craft employees have served national notices designed to drastically restrict the purchase and exchange of equipment and parts or other contracts with manufacturers or suppliers. Elaborate protective payments are requested for employees laid off irrespective of cause.

Effective January 1, 1963, a National Railway Labor Conference was organized to do the statistical, legal and research work incident to the planning and progression of national wage and rules cases and to coordinate the handling of such cases to a conclusion. Mr. J. E. Wolfe of Chicago is Chairman of the Conference.

CONCLUSION:

The Boston and Maine Railroad is grateful to all employees for their continued cooperation throughout the past year.

Patrick B. McGinnis
Chairman of the Board

D. A. Benson
President

The Boston and Maine's participation in the MTC program is financed by a joint Federal-State grant of $2.2 million. The objective: to determine whether highway congestion can be relieved by inducing motorists to use rail transportation.

This experiment is the first of its kind in the nation, and the B&M is the first of Boston's three commuter railroads to participate.

The Federal-State grant is to compensate the Railroad for an overall fare decrease averaging about 30% and the costs of increasing service by more than 85%. The Boston and Maine was operating 204 trains daily, Monday through Friday, before the experiment. It has added 182 trains daily, bringing the Monday-through-Friday total to 386. The grant does not provide for expenditures on new equipment or capital improvements.

The Boston and Maine contract with the MTC contains a permissive clause stipulating that at the end of five months either party can serve 30 days notice of intention to withdraw from the program. An alternative would permit, by mutual consent, adjustments in either fares or schedules or both.

The first provision was written into the contract in the event results of the demonstration were so discouraging as to make further B&M participation financially prohibitive. The second provision would permit further experimentation to determine the effects of fare and/or schedule readjustments on passenger volume in the early stages of the program.

The government grant will not eliminate the B&M passenger deficit in 1963, nor was it intended to do so. Nevertheless, the Railroad agreed to participate in the experiment for these reasons:

1. The B&M recognized that it had a responsibility to cooperate with public agencies in determining whether it was possible under any circumstances to persuade the public to turn from the highways to rail transportation;

2. It regarded the proposed demonstration program as the first instance of a practical test in a field hitherto confined to academic studies and reports over a period of many years;

3. It felt that the test might afford a clue to the extent of public need or desire for mass transportation facilities.

Such results could:

(a) Indicate whether or not rail commuter service can be supported within a framework of private enterprise;

(b) If not, what public steps would be required to meet the existing public demand.

The Boston and Maine had indicated on a number of prior occasions that if its passenger losses continued, it would have no choice but to undertake necessary steps to divest itself of its passenger deficit. But in the absence of any clearcut public evidence to show whether or not railroad commuter service can be operated at a profit, any effort to eliminate the passenger deficit would be bound to encounter long delays.

However, a first essential is to find an accurate gauge for the extent of the public need for mass transportation. If this need cannot be met by a private company operating at a reasonable margin of profit, then the public will have to decide what steps will be necessary to support the service.

ASSETS

	December 31 1962	December 31 1961
Current assets:		
Cash	$ 2,913,742	$ 1,859,378
Special deposits	178,589	163,554
Accounts receivable	4,441,435	5,452,447
Inventories of materials and supplies, at cost	2,812,544	3,450,624
Prepayments and other current assets	289,476	236,822
Total current assets	$ 10,635,786	$ 11,162,825
Properties (Note 2):		
Roadway and structures, including improvements to leased properties—$11,761,897 in 1962, $11,685,175 in 1961	$178,043,656	$178,655,656
Equipment	73,181,335	73,790,408
	$251,224,991	$252,446,064
Less:		
Depreciation of roadway and structures	(6,901,161)	(6,846,915)
Depreciation of equipment	(21,956,397)	(20,099,088)
	$222,367,433	$225,500,061
Miscellaneous physical properties, less depreciation—$269,824 in 1962, $361,828 in 1961	2,344,243	3,218,013
	$224,711,676	$228,718,074
Investments and other assets:		
Investments in leased lines (Page 19)	$ 3,460,993	$ 3,282,798
Investments in and advances to subsidiaries and other affiliated companies (Page 19 and Note 1)	3,845,934	3,758,061
Other investments (Page 20)	1,310,645	1,268,904
Deposits with trustees for first mortgage bonds and equipment obligations	162,710	87,539
Other assets and deferred charges	2,476,984	4,115,456
	$ 11,257,266	$ 12,512,758
	$246,604,728	$252,393,657

LIABILITIES AND CAPITAL

	December 31 1962	December 31 1961
Current liabilities:		
Accounts payable	$ 9,751,884	$ 9,349,837
Accrued vacation pay	1,493,470	1,635,736
Accrued interest	1,586,924	1,601,563
State and local taxes	2,803,178	1,954,674
Estimated current portion of injury and damage claims	1,494,785	1,404,500
Total current liabilities (excluding long-term debt due within one year)	$ 17,130,241	$ 15,946,310
Long-term debt due within one year (Page 20):		
First mortgage bonds	$ 959,484	$ 959,484
Equipment and other obligations	4,563,052	5,368,405
	$ 5,522,536	$ 6,327,889
Long-term debt (Page 20):		
First mortgage bonds	$ 47,519,748	$ 48,479,232
Income mortgage bonds	18,826,500	18,826,500
Equipment and other obligations	23,590,630	26,194,509
	$ 89,936,878	$ 93,500,241
Other liabilities and deferred credits:		
Provision for disputed per diem charges (Note 4)	$ 8,744,232	$ 7,755,213
Provision for injury and damage claims	804,383	933,250
Accrued depreciation—leased property	2,082,016	1,963,586
Unearned interest accrued on income mortgage bonds	3,765,300	3,012,240
Other	751,599	1,650,664
	$ 16,147,530	$ 15,314,953
Capital and retained income:		
Capital stock (Note 5):		
5% Preferred stock, $100 par value:		
Authorized—246,067 shares in 1962		
Issued (excluding shares held in treasury)—240,801 shares in 1962, 251,510 in 1961	$ 24,080,100	$ 25,151,000
Common stock, no par value:		
Authorized—1,093,852 shares		
Issued (excluding shares held in treasury)—586,497 shares in 1962, 567,756 in 1961	58,649,725	56,775,650
	$ 82,729,825	$ 81,926,650
Additional capital (Note 5)	26,010,594	26,816,753
Retained income (Page 18 and Note 6)	9,127,124	12,560,861
	$117,867,543	$121,304,264
Contingent obligations and commitments (Note 7)		
	$246,604,728	$252,393,657

BOSTON AND MAINE RAILROAD
STATEMENT OF INCOME

	Year Ended December 31	
	1962	*1961*
OPERATING REVENUES:		
Freight	$ 54,928,337	$ 56,133,995
Passenger	4,617,061	5,138,071
Other	4,494,986	4,759,096
	$ 64,040,384	$ 66,031,162
OPERATING EXPENSES:		
Transportation	$ 28,772,887	$ 29,865,797
Maintenance of way and structures	6,865,402	6,874,295
Maintenance of equipment	9,160,100	8,892,531
Traffic, general and miscellaneous expenses	4,742,369	4,988,489
	$ 49,540,758	$ 50,621,112
NET REVENUE FROM RAILWAY OPERATIONS	$ 14,499,626	$ 15,410,050
OTHER OPERATING CHARGES:		
Payroll, property and state excise taxes, etc.	$ 5,040,685	$ 4,967,234
Net rents for equipment and joint facilities	6,605,534	7,774,111
	$ 11,646,219	$ 12,741,345
NET OPERATING INCOME	$ 2,853,407	$ 2,668,705
NONOPERATING (EXPENSE) INCOME—NET	(18,033)	11,228
NET INCOME BEFORE FIXED CHARGES AND CONTINGENT INTEREST	$ 2,835,374	$ 2,679,933
FIXED CHARGES:		
Rent for leased lines, etc.	$ 476,852	$ 474,930
Interest:		
First mortgage bonds	2,914,302	2,973,641
Equipment trust certificates	573,925	636,535
Conditional sale contracts	544,472	634,839
Other	366,572	397,738
Amortization of long-term debt discount and expense	96,344	88,906
	$ 4,972,467	$ 5,206,589
NET LOSS BEFORE CONTINGENT INTEREST	($ 2,137,093)	($ 2,526,656)
CONTINGENT INTEREST	753,060	753,060
NET LOSS	($ 2,890,153)	($ 3,279,716)

STATEMENT OF RETAINED INCOME

BALANCE AT BEGINNING OF YEAR	$ 12,560,861	$ 15,517,252
ADDITIONS (DEDUCTIONS) FOR THE YEAR:		
Net loss	(2,890,153)	(3,279,716)
Net gain on disposal of land	433,201	1,906,219
Track retirements	(966,378)	(1,578,384)
Other	(10,407)	(4,510)
BALANCE AT END OF YEAR	$ 9,127,124	$ 12,560,861

BOSTON AND MAINE RAILROAD
STATEMENT OF INVESTMENTS IN LEASED LINES
DECEMBER 31, 1962

	No. of shares owned	*% owned*	*Cost*	*Approximate value based on current market quotations*
Northern Railroad	19,027	62.0	$1,991,671	$1,275,000
Stony Brook Railroad	1,807	60.2	149,445	117,000
Vermont & Massachusetts Railroad	11,647	36.5	1,319,877	804,000
			$3,460,993	$2,196,000

The shares in leased line companies have been acquired over the period from 1937 to 1962. At December 31, 1962 all of the shares were pledged to secure long-term debt. Annual rentals of the leased lines, under long-term leases, amount to approximately $405,000 plus federal and state taxes of the leased line companies which currently aggregate about $225,000 per year. Dividends received from the leased line companies amounted to $185,000 in 1962 and $170,000 in 1961.

STATEMENT OF INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND OTHER AFFILIATED COMPANIES
DECEMBER 31, 1962

	Investments in capital stocks	*Notes and advances*	*Total investments and advances*	*Approximate net assets of subsidiaries per books*
WHOLLY-OWNED SUBSIDIARIES:				
Boston & Maine Transportation Company (a)	$100,038	$1,191,128	$1,291,166	$ 675,000
North Station Industrial Building, Inc. (a)	1,002	673,444	674,446	1,695,000
North Station Hotel Building, Inc. (b)	100	150,000	150,100	(50,000)
The Mystic Terminal Company	5,000	80,000	85,000	85,000
Springfield Terminal Railway Company (a)	186,030	—	186,030	370,000
Charlestown Waterfront Facilities, Inc.	300,000	43,030	343,030	315,000
Pine Tree Corporation	50,000	—	50,000	30,000
Connecticut River Valley Company, Inc.	165,000	—	165,000	170,000
B & M Railroad Radio Co., Inc.	1,000	—	1,000	1,000
	$808,170	$2,137,602	$2,945,772	$3,291,000
OTHER AFFILIATED COMPANIES:				
Railway Express Agency, Inc. (a)	2,300	665,058	667,358	
Pullman Company	175,304	—	175,304	
Trailer Train Company	50,000	—	50,000	
Troy Union Railroad Company (25% owned)	7,500	—	7,500	
	$1,043,274	$2,802,660	$3,845,934	

(a) The capital stocks of Boston & Maine Transportation Company, North Station Industrial Building, Inc. and Springfield Terminal Railway Company and notes of Boston & Maine Transportation Company ($300,000), North Station Industrial Building, Inc. ($518,444) and Railway Express Agency, Inc. ($665,058) are pledged to secure long-term debt.

(b) The capital stock of North Station Hotel Building, Inc. is pledged to secure indebtedness of this subsidiary.

BOSTON AND MAINE RAILROAD
STATEMENT OF LONG-TERM DEBT
DECEMBER 31, 1962

	Portion Due Within one year (a)	Portion Due After one year (a)
First mortgage bonds (b):		
Series SS, 6%, due serially to August 1, 1965	$959,484	$45,095,748
Series AC, 5%, due September 1, 1967	–	2,424,000
	$959,484	$47,519,748
Income mortgage bonds, Series A, 4½% (4% cumulative), due July 1970 (c)	–	$18,826,500
Equipment and other obligations:		
Equipment Trust Certificates, Series I, 4½% to 6% due March 1971, secured by equipment of an aggregate original cost of $23,570,000	$1,234,000(d)	$ 9,872,000
4⅞% and 5% Guaranteed Notes due 1965 to 1977 secured by $1,828,800 principal amount of Series SS bonds, capital stock of leased lines, capital stock and notes of subsidiary and affiliated companies (Page 19) and "other investments" carried at cost of $980,070	366,667	6,808,333(e)
Conditional sale contracts maturing at various dates from January 1963 to October 1971, secured by equipment of an aggregate original cost of $40,323,000	2,962,385	6,910,297(e)
	$4,563,052	$23,590,630
	$5,522,536	$89,936,878

(a) Amounts outstanding are exclusive of bonds owned by the Railroad—$1,828,800 of Series SS bonds pledged against guaranteed notes, $641,000 of Series AC bonds held by the first mortgage trustee, and $436,000 of income mortgage bonds which are unpledged.

(b) The first mortgage bonds are secured by substantially all the road properties and equipment of the Railroad, its operating franchises, leases and agreements, and its investment in the capital stock of Troy Union Railroad Company, subject to the prior lien of equipment trust obligations and conditional sale contracts in the case of certain property and equipment as indicated in the statement above. Interest is payable semiannually at the indicated rates for the two series. The Series SS bonds mature serially in annual principal amounts of $959,484 on August 1, 1963 and 1964 and the remainder on August 1, 1965. The Series SS bonds due August 1, 1965 are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before May 1, to deposit with the trustee $459,000 in cash or Series SS bonds (at the lesser of their principal amount plus accrued interest, or their cost to the Railroad) if "available net income" (as defined in the indenture) is sufficient.

(c) The income mortgage bonds are secured by a second mortgage on the same properties as those securing the first mortgage bonds. Interest is payable at the rate of 4½% per annum if "available net income" is sufficient and, if not earned, is cumulative and payable not later than the maturity of the bonds at the rate of 4% per annum. The income mortgage bonds are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before September 1, to deposit with the trustee $483,000 in cash or Series A bonds (at the lesser of their principal amount plus accrued interest, or their cost to the Railroad) if "available net income" is sufficient.

(d) The same amount matures within each subsequent year to maturity.

(e) Payable at varying amounts each year to maturity.

NOTES TO FINANCIAL STATEMENTS

Note 1—Subsidiary Companies

The accounts of wholly-owned subsidiaries of the Railroad engaged in truck transportation, real estate, hotel and other types of operation are not consolidated in the accompanying financial statements. The investments in and advances to these subsidiaries are shown on Page 19. The excess of losses over profits from the operation of the subsidiaries, amounting to approximately $50,000 in 1962 (based on preliminary estimates) and $316,000 in 1961, is not reflected in the accompanying statement of income.

Note 2—Properties

The amounts shown in the balance sheet for properties represent the aggregate of acquisitions and additions (by merger, purchase, construction or otherwise), less retirements, recorded under the system of accounting prescribed by the Interstate Commerce Commission. In accordance with such accounting requirements the Railroad commenced providing for depreciation on roadway and structures (other than properties such as rail, ties, ballast and other track materials) on January 1, 1943. The recorded cost, less salvage, of such properties retired is charged to the depreciation reserves.

With respect to rails, ties, ballast and other track materials, included in the roadway accounts in the amount of approximately $43,800,000 at December 31, 1962, the Railroad follows the prescribed practice of "replacement" accounting. For many years this accounting practice has been considered an acceptable alternative in the railroad industry to the more widespread practice of depreciation accounting. Under this practice replacements in kind are charged to maintenance expense and only improvements and additions are capitalized. The amounts capitalized are not depreciated. Retirements of such properties, less salvage, are also charged to maintenance expense, except that in recent years certain retirements which were considered abnormal have been charged direct to retained income. Gains and losses on disposals of land are credited or charged to retained income.

The accompanying statement of income includes charges for depreciation totaling $4,457,000 in 1962 and $4,437,000 in 1961.

Note 3—Federal Income Taxes

As of December 31, 1962, the Railroad had loss carryovers for federal income tax purposes aggregating approximately $45,000,000 which would be available to apply against income in varying amounts through the year 1969.

Note 4—Provision for Disputed Per Diem Charges

The Boston and Maine Railroad is party to a dispute with other railroads over per diem rates for car rentals. For various reasons, including its situation as a so-called terminal line, the Railroad incurs more rentals than it earns. For several years payment has been made to other railroads at rates which are less than the rates adopted by the Association of American Railroads although full provision has been made on the books at the adopted rates, all by charges against income. The excess of amounts thus provided for on the books amounted to $8,744,232 as of December 31, 1962. The excess of amounts accrued and charged to income over payments amounted to $989,019 in 1962 and $1,203,552 in 1961.

Note 5—Capital Stock, Stock Options and Additional Capital

The 5% Preferred Stock is redeemable at any time at $100 per share plus accumulated unpaid dividends, and is convertible at the option of the holder into common stock at the rate of 1¾ shares of common stock for each share of preferred stock. The $806,159 decrease in additional capital in 1962 occurred primarily in connection with the conversion of 10,709 shares of preferred stock into 18,741 shares of common stock.

Dividends on preferred stock, if not paid, are cumulative only if and to the extent (not exceeding 5% per annum) that earnings are available. On this basis there were no cumulative unpaid dividends at December 31, 1962. If earnings are sufficient, the Railroad is required to set aside annually one half of one per cent of the par value of the authorized preferred stock as a sinking fund for redemption of preferred stock, before dividends are paid on the common stock. There was no cumulative sinking fund obligation as at December 31, 1962.

At December 31, 1962 there were outstanding options granted to certain employees to purchase 33,484 shares of common stock of the Railroad at prices ranging from $6 to $16 per share or an aggregate of $348,000. Options were then exercisable for 21,262 shares at an aggregate of $256,000. No options were granted or exercised during the year. Under the present stock option plan, subject to approval of Interstate Commerce Commission, further options for 31,516 shares could be granted to key supervisory personnel at the fair market value at the time of the grant. Options generally become exercisable in instalments over a five year period and remain exercisable until ten years after the date of the grant.

Note 6—Restrictions on Dividends and Additional Borrowings

The indentures securing the first mortgage bonds, the income mortgage bonds and the guaranteed notes contain various restrictive provisions under which, at December 31, 1962, the Railroad could not pay dividends on or make purchases of any class of its capital stock. The indenture securing the first mortgage bonds also contains restrictions on additional borrowings.

Note 7—Contingent Obligations and Commitments

In addition to the matters referred to elsewhere in the financial statements and notes, the Railroad had the following contingent obligations and commitments at December 31, 1962:

The Railroad rents approximately 2,800 freight cars under long-term leases which expire at various dates to 1970. Current annual rentals under the various leases amount to approximately $690,000. Certain of these leases provide options to renew for substantially lower rentals after the initial terms.

Together with other participating railroads, the Railroad has guaranteed repayment of equipment obligations of Trailer Train Company.

Under certain conditions the Railroad is required to make additional payments under a service interruption insurance policy carried jointly with other railroads.

At December 31, 1962 the unfunded past service credits of the Railroad's retirement income plan amounted to approximately $1,300,000.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of the
Boston and Maine Railroad

We have examined the balance sheet of the Boston and Maine Railroad as of December 31, 1962 and the statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The depreciation reserves for roadway and structures, accumulated under accounting practices prescribed by the Interstate Commerce Commission as briefly explained in Note 2 of the notes to financial statements, are substantially less than reserves which would have resulted from a systematic method of depreciating the cost of all such properties from the time they were acquired. This deficiency has been aggravated by the fact that such reserves as have been provided have been substantially reduced or, for certain classes of assets, eliminated entirely by charges for retirements which have been unusually large in recent years. The roadway and structures accounts of the Railroad still include substantial amounts for branch lines which produce a relatively small portion of the present total revenues and further substantial retirements are anticipated in the future. We have concluded that neither the current depreciation rates for property which is being depreciated, nor the "replacement" accounting method for rails, ties, etc., described in Note 2, provide adequately for obsolescence of the extent experienced by this railroad.

In our opinion, except for the inadequacy of reserves for depreciation and obsolescence discussed above, the financial statements referred to above present fairly the financial position of the Boston and Maine Railroad at December 31, 1962 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Boston, Massachusetts
March 13, 1963

A detailed financial and statistical supplement to this Report is available. For copies, please address: Maynard W. Bullis, Boston & Maine Railroad, Boston 14, Massachusetts